

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
REPORT ON FINANCIAL STATEMENTS
(with required supplementary information and additional information)
YEAR ENDED JUNE 30, 2006

CONTENTS

Page

Independent auditors' report	iii - iv
Management's Discussion and Analysis	v - x
Basic financial statements	
Government-wide financial statements	
Statement of net assets	1
Statement of activities	2
Fund financial statements	
Balance sheet - governmental funds	3
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	4
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	5
Notes to financial statements	6 - 20
Required supplementary information	21
Budgetary comparison schedule - general fund	22
Additional information	23
Nonmajor governmental fund types - special revenue funds	
Combining balance sheet	24
Combining statement of revenues, expenditures, and changes in fund balances	25
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	26 - 27



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
West Michigan Academy of Environmental Science
Walker, Michigan

July 27, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Michigan Academy of Environmental Science (the Academy), as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of West Michigan Academy of Environmental Science's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of West Michigan Academy of Environmental Science as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
West Michigan Academy of Environmental Science
Walker, Michigan

July 27, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2006, on our consideration of West Michigan Academy of Environmental Science's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Michigan Academy of Environmental Science's basic financial statements. The additional information on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of West Michigan Academy of Environmental Science's annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- The Academy had an increase in the fund balance for the general fund of \$263,724. This gives the Academy a fund balance in the general fund of \$312,263.
- The Academy retired \$187,183 in long-term debt during the year.
- The Academy invested \$18,750 in capital assets during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

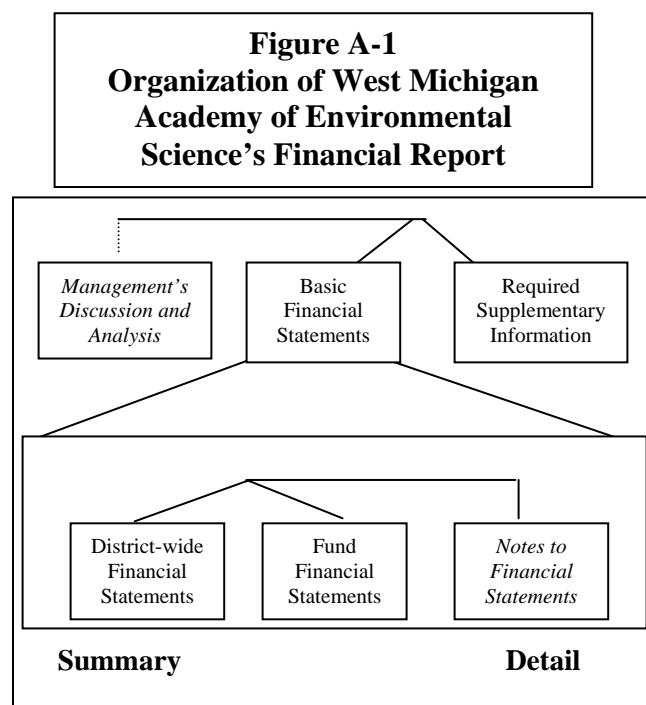


Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities – The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or show that it is properly using certain revenues (like school lunch).

The Academy has only governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of \$2,083,697 improved by \$357,925 during the year. See Figures A-3 and A-4.

The total revenues increase by 2.3% to \$3,229,485. State aid foundation allowance included in revenue from state sources accounts for 74.2% of the Academy's revenue. The blended enrollment increased 13 students in 2006 to 342 students. This resulted in an increase in budgeted state foundation allowance payments of approximately \$93,000.

The total cost of instruction decreased by 5.4% to \$1,379,801. Total support services decreased by 7.6% to \$1,122,960.

Academy governmental activities

Figure A-3		
West Michigan Academy of Environmental Science's Net Assets		
	2006	2005
Current assets	\$ 744,259	\$ 545,357
Restricted cash	161,636	140,488
Capital assets, net	3,790,652	3,852,830
Total assets	4,696,547	4,538,675
Current liabilities	557,372	569,568
Long-term liabilities	2,055,478	2,243,335
Total liabilities	2,612,850	2,812,903
Net assets:		
Invested in capital assets, net of related debt	1,547,317	1,422,312
Restricted for debt service	216,136	222,423
Unrestricted	320,244	81,037
Total net assets	\$ 2,083,697	\$ 1,725,772

Figure A-4		
Changes in West Michigan Academy of Environmental Science's Net Assets		
	2006	2005
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 621,697	\$ 649,838
Charges for service	29,398	18,079
General revenues:		
State aid - unrestricted	2,396,299	2,288,740
Investment	6,008	1,947
Incoming transfers and other	176,083	197,924
Total general revenues	2,578,390	2,488,611
Total revenues	3,229,485	3,156,528
Expenses:		
Instruction	1,379,801	1,458,816
Support services	1,122,960	1,215,229
Community services	1,110	4,436
Food services	148,737	160,217
Athletics	5,035	
Interest and fees on long-term debt	132,989	108,037
Unallocated depreciation	80,928	76,917
Total expenses	2,871,560	3,023,652
Change in net assets	\$ 357,925	\$ 132,876

Financial analysis of the Academy's funds

The financial operation of the Academy is considered stable. The fund balance at June 30, 2006 is \$312,263. There was a 2.9% increase in general fund revenue and a 9.6% decrease in expenditures for instructional programs and a decrease of 7.6% in expenditures for support services. The decreases in expenditures were primarily due to fewer furniture and technology capital expenditures in 2006 in comparison to 2005.

The general fund transferred \$9,501 and \$4,698 to the food service fund and athletics fund, respectively, to cover operational short falls. The excess of expenditures over revenues (prior to transfers from the general fund) in the special revenue fund was \$25,731 compared to \$33,868 in 2005.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget to stay within its budgetary plan.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures and other financing sources or uses by \$114,350, the actual results for the year showed an increase in fund balance of \$263,724.

Actual revenues were \$29,844 more than budgeted primarily due to receipt of additional special education funds.

Actual expenditures were \$99,729 under budget primarily due to successful implementation of an across-the-board cost savings strategy.

Capital asset and debt administration

Capital assets

As of June 30, 2006, the Academy had invested \$3,790,652 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$62,178 from the beginning of the year. Total depreciation expense for the year was \$80,928. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5				
West Michigan Academy of Environmental Science's Capital Assets				
	2006		2005	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Buildings	\$ 2,565,087	\$ 149,630	\$ 2,415,457	\$2,466,759
Furniture and equipment	176,976	51,313	125,663	138,854
Technology	136,013	96,637	39,376	35,186
Vehicles	15,000	4,844	10,156	12,031
Land	1,200,000		1,200,000	1,200,000
Total	<u>\$ 4,093,076</u>	<u>\$ 302,424</u>	<u>\$ 3,790,652</u>	<u>\$3,852,830</u>

Long-term debt

The Academy repaid principal on long-term debt of \$187,183 during 2006. See Note 6 for more information.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

The foundation allowance has increased \$210 per student to \$7,385, an increase of 2.9%. Total general fund revenues for 2006-2007 were initially budgeted at \$3,162,263 reflecting a slight increase in state aid. Total expenses for 2006-2007 were estimated at \$3,065,756. The Academy continues to place emphasis upon enrollment increases through new working strategies, most notably in the area of environmental science programming and outreach. Enrollment growth will be imperative in continuing financial growth, allowing for facility expansion, and offering additional programmatic opportunities.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 129,393
Receivables:	
Accounts receivable	790
Due from other governmental units	614,076
TOTAL CURRENT ASSETS	744,259
NONCURRENT ASSETS:	
Restricted cash	161,636
Capital assets	4,093,076
Less accumulated depreciation	(302,424)
NET CAPITAL ASSETS	3,790,652
TOTAL NONCURRENT ASSETS	3,952,288
TOTAL ASSETS	\$ 4,696,547
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 49,851
Accrued salaries and related items	224,177
Other accrued expenses	13,162
State aid anticipation note	82,325
Current portion of long-term obligations	187,857
TOTAL CURRENT LIABILITIES	557,372
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	2,055,478
TOTAL LIABILITIES	2,612,850
NET ASSETS:	
Invested in capital assets, net of related debt	1,547,317
Restricted for debt service	216,136
Unrestricted	320,244
TOTAL NET ASSETS	2,083,697
TOTAL LIABILITIES AND NET ASSETS	\$ 4,696,547

See notes to financial statements.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 1,379,801	\$	\$ 451,879	\$ (927,922)
Support services	1,122,960	9,733	61,483	(1,051,744)
Community services	1,110			(1,110)
Food services	148,737	19,328	108,335	(21,074)
Athletic services	5,035	337		(4,698)
Interest and fees	132,989			(132,989)
Unallocated depreciation	80,928			(80,928)
Total governmental activities	<u>\$ 2,871,560</u>	<u>\$ 29,398</u>	<u>\$ 621,697</u>	<u>(2,220,465)</u>
General revenues:				
Investment earnings				6,008
State sources				2,396,299
Other				49,653
Incoming transfers from Kent ISD				<u>126,430</u>
Total general revenues				<u>2,578,390</u>
CHANGE IN NET ASSETS				357,925
NET ASSETS, beginning of year				<u>1,725,772</u>
NET ASSETS, end of year				<u><u>\$ 2,083,697</u></u>

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	General fund	Debt service fund	Nonmajor governmental (special revenue) funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 95,450	\$ 161,636	\$ 33,943	\$ 291,029
Receivables:				
Accounts receivable			790	790
Due from other governmental units	551,595			551,595
Due from other funds	34,733			34,733
TOTAL ASSETS	\$ 681,778	\$ 161,636	\$ 34,733	\$ 878,147

LIABILITIES AND FUND BALANCES

LIABILITIES:					
Accounts payable	\$	49,851	\$	\$	49,851
Accrued salaries and related items		224,177			224,177
Other accrued expenses		13,162			13,162
Due to other funds				34,733	34,733
State aid anticipation note		82,325			82,325
TOTAL LIABILITIES		369,515		34,733	404,248

	General fund	Debt service fund	Nonmajor governmental (special revenue) funds	Total governmental funds
FUND BALANCES:				
Reserved for debt service	\$ 54,500	\$ 161,636	\$	\$ 216,136
Unreserved, undesignated	257,763			257,763
TOTAL FUND BALANCES	312,263	161,636		473,899
TOTAL LIABILITIES AND FUND BALANCES	\$ 681,778	\$ 161,636	\$ 34,733	\$ 878,147

Total governmental fund balances

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

The cost of the capital assets is _____
Accumulated depreciation is _____

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable
Note payable

Balance of amounts due from other governmental units at June 30, 2006,
expected to be collected after September 1, 2006

Net assets of governmental activities

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General fund	Debt service fund	Nonmajor governmental (special revenue) funds	Total governmental funds
REVENUES:				
Local sources:				
Food service	\$	\$	\$ 19,328	\$ 19,328
Athletic events			337	337
Investment income	2,187	3,780	41	6,008
Other	59,386			59,386
Total local sources	61,573	3,780	19,706	85,059
State sources	2,587,714		7,505	2,595,219
Federal sources	321,947		100,830	422,777
Incoming transfers	139,415			139,415
Total revenues	3,110,649	3,780	128,041	3,242,470
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	915,734			915,734
Added needs	482,817			482,817
Total instruction	1,398,551			1,398,551
Support services:				
Pupil	119,267			119,267
Instructional staff	121,841			121,841
General administration	387,252			387,252
School administration	246,785			246,785
Business services	27,422			27,422
Operation and maintenance	197,493			197,493
Pupil transportation services	120			120
Central support services	22,780			22,780
Total support services	1,122,960			1,122,960
EXPENDITURES (Concluded):				
Current (Concluded):				
Community services:				
Custody and care of children	\$ 1,110	\$	\$	\$ 1,110
Food service			148,737	148,737
Athletics			5,035	5,035
Debt service:				
Principal retirement	7,183	180,000		187,183
Interest and fiscal charges	2,922	130,067		132,989
Total expenditures	2,532,726	310,067	153,772	2,996,565
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	577,923	(306,287)	(25,731)	245,905
OTHER FINANCING SOURCES (USES):				
Operating transfers in		300,000	14,199	314,199
Operating transfers out	(314,199)			(314,199)
Total other financing sources (uses)	(314,199)	300,000	14,199	
NET CHANGE IN FUND BALANCES	263,724	(6,287)	(11,532)	245,905
FUND BALANCES:				
Beginning of year	48,539	167,923	11,532	227,994
End of year	\$ 312,263	\$ 161,636	\$	\$ 473,899

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances total governmental funds	\$ 245,905
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(80,928)
Capital outlay	18,750

Repayments of principal on long-term debts are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).

Principal repayment - revenue bonds	180,000
Principal repayment - bank note	7,183

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(75,466)
Deferred revenue end of the year	62,481

Change in net assets of governmental activities	\$ 357,925
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**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the West Michigan Academy of Environmental Science have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The West Michigan Academy of Environmental Science (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2009. The Academy's Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on variable rate demand revenue bonds.

Other Non-major Funds

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service and athletic activities in the special revenue fund.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits accounts.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building	50 years
Furniture and equipment	10-15 years
Technology	3 years
Vehicles	8 years

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

5. Long-term obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

7. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Amounts reserved for debt services in the general fund, represent the portion of the July and August 2006 state aid payment restricted for debt service.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Annual appropriations lapse at year end.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The Academy does not consider these amendments to be significant.

Excess of expenditures over appropriations in general fund - During the year, the Academy incurred expenditures which were in excess of the amounts appropriated as follows:

Budgeted item	Budget appropriation	Actual expenditure	Budget variable
Pupil	\$ 109,165	\$ 119,267	\$ (10,102)
School administration	242,166	246,785	(4,619)
Community services	500	1,110	(610)
Interest and fiscal charges	2,478	2,922	(444)

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest rate risk. In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market values of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements. As of June 30, 2006, the Academy had no investments.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the Academy had no investments.

Concentration of credit risk. The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. At June 30, 2006 the Academy had no investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2006, \$44,739 of the Academy's bank balance of \$333,971 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy had no investments at June 30, 2006.

Foreign currency risk. The Academy is not authorized to invest in investments which have this type of risk.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,200,000	\$	\$	\$ 1,200,000
Capital assets, being depreciated:				
Buildings	2,565,087			2,565,087
Furniture and equipment	176,976			176,976
Technology	117,263	18,750		136,013
Vehicles	15,000			15,000
Total capital assets, being depreciated	2,874,326	18,750		2,893,076
Accumulated depreciation:				
Buildings	98,328	51,302		149,630
Furniture and equipment	38,122	13,191		51,313
Technology	82,077	14,560		96,637
Vehicles	2,969	1,875		4,844
Total accumulated depreciation	221,496	80,928		302,424
Net capital assets being depreciated	2,652,830	(62,178)		2,590,652
Net governmental capital assets	\$ 3,852,830	\$ (62,178)	\$ -	\$ 3,790,652

Depreciation for the fiscal year ended June 30, 2006 amounted to \$80,928. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NOTE PAYABLE

At June 30, 2006, the Academy has \$82,325 outstanding from a state aid anticipation note dated August 20, 2005. The note, which has an interest rate of 6.26%, matures July 20, 2006. The note is secured by future state school aid payments.

Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
<u>\$ 81,478</u>	<u>\$ 800,000</u>	<u>\$ 799,153</u>	<u>\$ 82,325</u>

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2006:

	Variable rate demand revenue bonds	Bank note	Total
Long-term debt, July 1, 2005	\$ 2,395,000	\$ 35,518	\$ 2,430,518
Deductions:			
Principal payments	<u>(180,000)</u>	<u>(7,183)</u>	<u>(187,183)</u>
Balance, June 30, 2006	2,215,000	28,335	2,243,335
Less current portion	<u>(180,000)</u>	<u>(7,857)</u>	<u>(187,857)</u>
Total due after one year	<u>\$ 2,035,000</u>	<u>\$ 20,478</u>	<u>\$ 2,055,478</u>

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term debt currently outstanding is as follows:

Installment purchase agreement related to the Michigan Public Education Facilities Authority Limited Obligation Variable rate demand revenue bonds series 2003. Principal is due in annual installments of \$180,000 through December 2017 and \$55,000 in December 2018 with variable interest (3.99% at June 30, 2006, see Note 7 for interest rate swap). The installment purchase agreement is secured by up to 20% of future state aid payments.	\$ 2,215,000
Note payable with monthly installments of \$841 through October 2009, with an interest rate of 9%. The loan is secured by the related equipment.	<u>28,335</u>
	<u><u>\$ 2,243,335</u></u>

The annual requirements to amortize long-term debts outstanding, including estimated interest of \$506,180 (using rates and the swap in effect as of June 30, 2006) are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 187,857	\$ 80,238	\$ 268,095
2008	188,594	72,835	261,429
2009	189,400	65,393	254,793
2010	182,484	58,139	240,623
2011	180,000	51,530	231,530
2012 - 2016	900,000	159,730	1,059,730
2017 - 2019	<u>415,000</u>	<u>18,315</u>	<u>433,315</u>
	<u><u>\$ 2,243,335</u></u>	<u><u>\$ 506,180</u></u>	<u><u>\$ 2,749,515</u></u>

An amount of \$161,636 is available in the debt service funds to service the bonds. The bonds may be paid off early at the discretion of the Academy at stated amounts based on the terms of the agreement.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Concluded)

The variable rate demand bonds carry interest at a synthetic rate of 3.7% (see Note 7). The demand bondholders have the right to receive all outstanding principal and accrued interest on the bond upon demand prior to the maturity of the bonds. The Academy has entered into a remarketing agreement with Fifth Third Bank to resell bonds in the event that a demand for payment is made. In addition, the Academy has a letter of credit agreement in the same amount as the outstanding bonds, to ensure that funds will be available to purchase bonds for which payment is demanded. The annual fee per the letter of credit is approximately 1.5% of the outstanding bond principal. This was approximately \$34,000 for 2006. There were no amounts outstanding on the letter of credit at June 30, 2006. The building and other property purchased with the bond proceeds are pledged as collateral for the repurchase agreement with the bank.

As explained in Note 7, the Academy has entered into an interest rate swap agreement. Using the rates as of June 30, 2006, the debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain the same for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal year ending June 30,	Principal	Interest	Interest rate swaps, net	Total principal and interest
2007	\$ 180,000	\$ 84,189	\$ (6,182)	\$ 258,007
2008	180,000	77,007	(5,666)	251,341
2009	180,000	69,825	(5,120)	244,705
2010	180,000	62,643	(4,541)	238,102
2011	180,000	55,461	(3,931)	231,530
2012 - 2016	900,000	169,575	(10,000)	1,059,575
2017 - 2019	415,000	18,470		433,470
	<u>\$ 2,215,000</u>	<u>\$ 537,170</u>	<u>\$ (35,440)</u>	<u>\$ 2,716,730</u>

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTEREST RATE SWAP AGREEMENT

Objective - As a means to protect itself against rising interest rates related to its variable rate demand bonds issued in December 2003, the Academy has entered into an interest rate swap agreement (swap). The intention of the swap is effectively to change the Academy's variable rate of the bonds to a synthetic rate of 3.7%.

Terms - The swap was entered into in December 2004. The notional value of the swap and the principal amount of the bonds decline at a similar but not exact amount each year through the maturity of the swap in December 2014. Under the swap, the Academy pays the counterparty a fixed payment of 3.7% and receives a variable-rate payment computed base on the USD-BMA Municipal Swap Index. Conversely, the bond's variable-rate coupons adjust on a weekly basis.

Fair value - As of June 30, 2006, the swap has a fair value of approximately \$30,000. The fair value is based on a replacement trade that would match the maturities and notional amounts of the existing swap.

Credit risk - As of June 30, 2006, the Academy is exposed to credit risk because the swap had a positive fair value. The counterparty is rated AA as of the date of the financial statements. There is no collateralization of the swap from the counterparty to mitigate the credit risk of the Academy.

Termination risk - The Academy may terminate the swap under provisions of the swap agreement. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the Academy would be liable to the counterparty for a payment equal to the swap's fair value.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2006 are as follows:

<u>Receivable fund</u>		<u>Payable fund</u>	
General fund	<u>\$ 34,733</u>	Food service	<u>\$ 34,733</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - TRANSFERS

Operating transfers between the governmental funds were as follows:

<u>Operating transfers out</u>		<u>Operating transfers in</u>	
General fund	<u>\$ 314,199</u>	Debt service fund	\$ 300,000
		Food service fund	9,501
		Athletics fund	<u>4,698</u>
			<u>\$ 314,199</u>

Operating transfers were made to the debt service fund to pay bond principal and interest and to the food service and athletics fund to cover operating expenditures.

NOTE 10 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Central Michigan University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2006, the Academy incurred expense of approximately \$71,000 for oversight fees.

NOTE 11 - MANAGEMENT AGREEMENT

The Academy had entered into a five year (through June 2007) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is \$297,779 for the fiscal year 2006.

NOTE 12 - PURCHASED SERVICES

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools.

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

[illegible]

ADDITIONAL INFORMATION

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2006**

	Food service fund	Athletics fund	Total nonmajor governmental funds
ASSETS			
ASSETS:			
Cash	\$ 33,943	\$	\$ 33,943
Accounts receivable	790		790
TOTAL ASSETS	\$ 34,733	\$	\$ 34,733
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Due to other funds	\$ 34,733	\$	\$ 34,733

**WEST MICHIGAN ACADEMY OF ENVIRONMENTAL SCIENCE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006**

	Food service fund	Athletics fund	Total nonmajor governmental funds
REVENUES:			
Sale of lunches and milk	\$ 19,328	\$	\$ 19,328
Athletic events		337	337
State sources	7,505		7,505
Federal aid	100,830		100,830
Investment income	41		41
	<hr/>	<hr/>	<hr/>
Total revenues	127,704	337	128,041
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Salaries	44,693	3,750	48,443
Benefits	15,443	371	15,814
Food, supplies and other expenses	88,601	914	89,515
	<hr/>	<hr/>	<hr/>
Total expenditures	148,737	5,035	153,772
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<hr/> (21,033) <hr/>	<hr/> (4,698) <hr/>	<hr/> (25,731) <hr/>
OTHER FINANCING SOURCES:			
Operating transfer in	9,501	4,698	14,199
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	(11,532)		(11,532)
	<hr/>	<hr/>	<hr/>
FUND BALANCES, beginning of year	11,532		11,532
	<hr/>	<hr/>	<hr/>
FUND BALANCES, end of year	<hr/> \$ <hr/>	<hr/> \$ <hr/>	<hr/> \$ <hr/>



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Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
West Michigan Academy of Environmental Science
Walker, Michigan

July 27, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Michigan Academy of Environmental Science as of and for the year ended June 30, 2006, which collectively comprise West Michigan Academy of Environmental Science's basic financial statements of the Academy and have issued our report thereon dated July 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Michigan Academy of Environmental Science's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
West Michigan Academy of Environmental Science
Walker, Michigan

July 27, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Michigan Academy of Environmental Science's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants



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July 27, 2006

To the Board of Education
West Michigan Academy of Environmental Science
Walker, Michigan

In planning and performing our audit of the financial statements of West Michigan Academy of Environmental Science for the year ended June 30, 2006, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

The following comments address issues that will affect the Academy in the future. This letter does not affect our report dated July 27, 2006, on the financial statements of West Michigan Academy of Environmental Science.

General Information

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the chief administrative officer and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the Academy in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the Academy fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 of the financial statements. While there may be technical violations of the act we believe the Academy's current budget procedures are adequate.

Cash Management

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the Academy request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Academy could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

To the Board of Education
West Michigan Academy of Environmental Science
Walker, Michigan

4

July 27, 2006

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency." Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the Academy. We will have to evaluate the Academy's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exist.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of West Michigan Academy of Environmental Science, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan + Ellis, P.C.



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Walter P. Maner, Jr. (1921-2004)
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Leon A. Ellis (1933-1988)

July 27, 2006

To the Board of Directors
West Michigan Academy of Environmental Science
Beaverton, Michigan

We have audited the financial statements of West Michigan Academy of Environmental Science for the year ended June 30, 2006, and have issued our report thereon dated July 27, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 5, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of West Michigan Academy of Environmental Science. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether West Michigan Academy of Environmental Science's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by West Michigan Academy of Environmental Science are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by West Michigan Academy of Environmental Science during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the West Michigan Academy of Environmental Science's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the West Michigan Academy of Environmental Science, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the West Michigan Academy of Environmental Science's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of West Michigan Academy of Environmental Science and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.